

WAYNE COUNTY HOSPITAL
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
YEARS ENDED JUNE 30, 2005 AND 2004

**WAYNE COUNTY HOSPITAL
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YEARS ENDED JUNE 30, 2005**

OFFICIALS

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WAYNE COUNTY HOSPITAL
OFFICIALS
YEAR ENDED JUNE 30, 2005

<u>Name</u>	<u>Title</u>
BOARD OF TRUSTEES	
Gary Runyon	Chairperson
Norm Reikens	Vice Chairperson
Bill Wells	Secretary
Darrell Cook	Treasurer
Harriet Gustafson	Member
Marvin Ryan	Member
Bill Miles	Member
HOSPITAL OFFICIALS	
Brian Burnside	Administrator
Mark Raven	Chief Financial Officer

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Wayne County Hospital
Corydon, Iowa

We have audited the accompanying financial statements of Wayne County Hospital for the years ended June 30, 2005 and 2004, which collectively comprise the Hospital's financial statements as listed in the table of contents. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

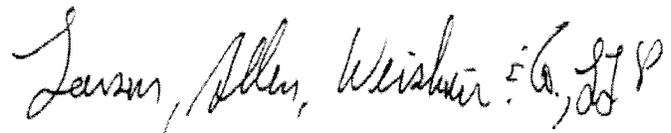
We conducted our audits in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Wayne County Hospital as of June 30, 2005 and 2004, and the in changes financial position and cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2005 on our consideration of Wayne County Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

The management's discussion and analysis on pages 3-9 and the Budgetary Comparison Information on page 27 are not a required part of the financial statements, but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise Wayne County Hospital's basic financial statements. The other supplementary information from pages 28-37 is presented for purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The statistical data contained in the Schedule of Statistics on page 37 has been summarized from the Hospital's records and was not subjected to audit procedures. Accordingly, we express no opinion on such data.



LARSON, ALLEN, WEISHAIR & CO., LLP

Austin, Minnesota
September 30, 2005

**WAYNE COUNTY HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2005 AND 2004**

This section of the Wayne County Hospital (the Hospital) annual audited financial report represents management's discussion and analysis of Wayne County Hospital's financial performance during the fiscal year ended June 30, 2005. The analysis will focus on Wayne County Hospital's financial performance as a whole. Please read it in conjunction with the audited financial report.

Using This Annual Report

The June 30, 2005 and 2004 Independent Auditors' Report includes audited financial statements that include:

- Balance Sheets
- Statements of Revenues, Expenses and Changes in Net Assets
- Statements of Cash Flows
- Notes to Financial Statements

Financial Highlights

- The Hospital's total assets decreased by \$573,979 or 4.5% in 2005 and increased by \$861,135 or 7.3% in 2004.
- The Hospital's net assets decreased by \$301,861 or 3.1% in 2005 and decreased by \$100,506 or 1.0% in 2004.
- The Hospital reported operating losses of \$376,872 in 2005 and \$631,109 in 2004. This represents a decrease in the operating loss in 2005 of \$254,237 and an increase in the operating loss in 2004 of \$422,012.

The Balance Sheet and Statement of Revenues, Expenses, and Changes in Net Assets

These financial statements report information about Wayne County Hospital using Governmental Accounting Standards Board (GASB) accounting principles. The balance sheet is a statement of financial position. It includes all of the Hospital's assets and liabilities and provides information about the amounts of investments in resources (assets) and the obligations to Hospital creditors (liabilities). Revenue and Expense are reflected for the current and previous year on the Statements of Revenues, Expenses, and Changes in Net Assets. This statement shows the results of the hospital's operations. The last financial statement is the Statement of Cash Flow. The cash flow essentially reflects the movement of money in and out of the hospital that determines the hospital's solvency. It is divided into cash flows (in or out) from operating, non-capital financing, capital and related financing, and investing activities.

Supplementary information to the above statements is also provided in:

- Budgetary Comparison Schedules of Revenues, Expenses and Changes in Net Assets,
- Schedules of Net Patient Service Revenue
- Schedules of Adjustments to Patient Service Revenue and Other Revenues
- Schedules of Operating Expenses
- Schedules of Aged Analysis of Accounting Receivable from Patients and Allowance for Doubtful Accounts
- Schedule of Inventories and Prepaid Expenses
- Comparative Statistics

**WAYNE COUNTY HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2005 AND 2004**

There were no significant changes in Wayne County Hospital's accounting policies for the Fiscal Year Ended June 30, 2005. However, in fiscal year 2005 the amount to qualify for an item as a capital expenditure increased from \$500 to \$5,000.

Financial Analysis of the Hospital

The information from the Balance Sheets, Statements of Revenues, Expenses & Changes in Net Assets, and the Statements of Cash Flows has been summarized in the following tables. Tables 1 and 2 report on the net assets of the Hospital and the changes in them. Increases or decreases in net assets are one indicator of whether or not the hospital's financial health is improving. Other non-financial factors can also have an effect on the hospital's financial position. These can include such things as changes in Medicare and Medicaid regulations and reimbursement, changes with other third party payers, as well as, changes in the economic environment of Wayne County and the surrounding area.

Table 1: Assets, Liabilities, and Net Assets

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Assets:			
Current Assets	\$ 3,781,207	\$ 3,704,989	\$ 3,966,739
Noncurrent Cash and Investments	1,819,758	1,825,272	2,338,912
Capital Assets, Net	5,699,545	6,321,757	4,754,574
Succeeding Year Property Tax Receivable	742,184	747,962	655,219
Other Assets	26,859	43,552	66,953
	<u>\$ 12,069,553</u>	<u>\$ 12,643,532</u>	<u>\$ 11,782,397</u>
Liabilities:			
Total Current Liabilities	\$ 913,468	\$ 905,236	\$ 917,987
Long Term Debt	892,554	1,167,128	285,480
Deferred Revenue from Succeeding Year Property Tax Receivable	742,187	747,963	655,219
Total Liabilities	<u>2,548,209</u>	<u>2,820,327</u>	<u>1,858,686</u>
Net Assets:			
Invested in Capital Assets Net of Related Debt	4,747,692	5,118,330	4,466,574
Restricted for Capital Expenditures	26,288	23,769	869,814
Restricted Under Debt Agreements	7,608	7,608	-
Restricted for Payment Reserve - Capital Lease	4,968	3,312	1,656
Unrestricted	4,734,788	4,670,186	4,585,667
Total Net Assets	<u>9,521,344</u>	<u>9,823,205</u>	<u>9,923,711</u>
Total Liabilities and Net Assets	<u>\$ 12,069,553</u>	<u>\$ 12,643,532</u>	<u>\$ 11,782,397</u>

Asset categories changing significantly during 2005 and 2004 included Cash and Cash Equivalents, Noncurrent Cash and Investments, and Capital Assets Net. Current Assets increased by \$76,218 or 2.1% in 2005 and decreased by \$261,750 or 6.6% in 2004. Noncurrent Cash and investments increased in 2005 by \$5,514 or .3% and in 2004 decreased by \$513,640 or 22%. Capital Assets decreased in 2005 by \$622,212 or 9.8% and increased in 2004 by \$1,567,183 or 9.8%.

**WAYNE COUNTY HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2005 AND 2004**

The current ratio (current assets divided by current liabilities) for 2005 was 4.14 and in 2004 was 4.09. It is a measure of liquidity, providing an indication of the hospital's ability to pay current liabilities; a high ratio number is preferred.

Table 2 summarizes information from the Statements of Revenues, Expenses and Changes in Net Assets.

Table 2: Statement of Revenues, Expenses & Changes in Net Assets

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Net Patient Service Revenue	\$ 8,029,110	\$ 7,643,652	\$ 7,535,698
Assisted Living and Multi Unit Housing	256,754	17,126	-
Other Operating Revenue	996,137	936,360	894,082
Total Revenue	<u>9,282,001</u>	<u>8,597,138</u>	<u>8,429,780</u>
Operating Expenses			
Nursing Service	2,008,259	1,976,955	1,972,146
Other Professional Service	3,419,736	3,453,032	3,229,239
General Service	1,211,355	1,029,584	791,072
Fiscal and Administrative Services	2,324,916	2,199,048	2,096,304
Depreciation	661,387	546,361	541,548
Interest	33,220	23,267	8,568
Total Expenses	<u>9,658,873</u>	<u>9,228,247</u>	<u>8,638,877</u>
Operating Loss	(376,872)	(631,109)	(209,097)
Non-Operating Revenues (Expenses)	<u>65,993</u>	<u>529,403</u>	<u>372,855</u>
Deficit of Revenues over Expenses Before Capital Grants and Contributions	(310,879)	(101,706)	163,758
Capital Grants and Contributions	<u>9,018</u>	<u>1,200</u>	<u>2,006</u>
Increase (Decrease) in Net Assets	(301,861)	(100,506)	165,764
Net Assets, Beginning of Year	<u>9,823,205</u>	<u>9,923,711</u>	<u>9,757,947</u>
Net Assets, End of Year	<u>\$ 9,521,344</u>	<u>\$ 9,823,205</u>	<u>\$ 9,923,711</u>

**WAYNE COUNTY HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2005 AND 2004**

Net patient service revenue made up 86.5% in 2005 and 88.9% in 2004 of the Wayne County Hospital's total operating revenue. To arrive at net patient service revenue contractual adjustments and provisions for bad debt have been made to gross patient service revenue due to agreements with third party payors. Table 3 below shows the contractual adjustments and provisions for bad debt that were recognized:

Table 3: Net Patient Service Revenue and Contractual Adjustments

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Total Patient Service Revenues	\$ 12,975,339	\$ 12,396,742	\$ 11,218,521
Contractual Adjustments and Provisions for Bad Debt	4,946,229	4,753,090	3,682,823
Net Patient Service Revenue	<u>\$ 8,029,110</u>	<u>\$ 7,643,652</u>	<u>\$ 7,535,698</u>
Contractual Adjustments as a Percent of Revenues	<u>38.12%</u>	<u>38.34%</u>	<u>32.83%</u>

Net patient service revenue increased in 2005 due to increases in patient volumes. Total operating expenses increased \$430,626 or 4.7% in 2005 and increased \$589,370 or 6.8% in 2004. The operating expenses are broken by department on the Schedules of Operating Expenses; please see pages 30-34 of the audited financial statements for this information.

The Operating Margin (total operating revenue less total operating expenses divided by total operating revenue) was a negative 4.1% in 2005 up from negative 7.3% in 2004. Operating loss in 2005 was (\$376,872) and in 2004 was (\$631,109).

Other Operating Revenues increased by \$59,777 or 6.4% in 2005 and increased by \$42,278 or 4.7% in 2004. Table 4 shows the detail for this line item.

Table 4: Other Revenues

	<u>2005</u>	<u>2004</u>	<u>2003</u>
County Taxes	\$ 744,791	\$ 678,496	\$ 669,486
Office Rent	120,808	117,302	93,094
Miscellaneous	31,569	65,498	89,016
Cafeteria	60,147	45,624	28,498
Meals on Wheels	11,327	12,548	12,023
Emergency Telephone Services	20,810	16,892	-
Restricted contributions	6,185	-	-
Community Programs	500	-	1,965
Total Other Revenues	<u>\$ 996,137</u>	<u>\$ 936,360</u>	<u>\$ 894,082</u>

**WAYNE COUNTY HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2005 AND 2004**

Hospital Statistical Data

Table 5 shows the Hospital's statistical data. There has been a decline in utilization and revenue in inpatient services since fiscal year 2002. During the past three years we have analyzed the benefit of converting to Critical Access status, and obtained this designation on August 1, 2004.

Table 5: Statistical Data

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Patient Days			
Acute	1,929	1,696	1,960
Swing Bed	1,353	1,562	1,667
Newborn	118	87	110
Intermediate Care	608	594	614
Total	<u>4,008</u>	<u>3,939</u>	<u>4,351</u>
Admissions			
Acute	628	537	598
Swing Bed	98	115	102
Newborn	73	53	75
Intermediate Care	10	11	16
Total	<u>809</u>	<u>716</u>	<u>791</u>
Discharges			
Acute	629	539	599
Swing Bed	101	114	97
Newborn	73	53	44
Intermediate Care	10	11	15
Total	<u>813</u>	<u>717</u>	<u>755</u>
Average Length of Stay, Acute	<u>3.1</u>	<u>3.2</u>	<u>3.4</u>
Beds			
Acute, Swing and Intermediate	25	28	28
Occupancy Percentage	43.0%	37.9%	41.5%

The Hospital's Cash Flows

The Hospital's cash flows are consistent with the changes in operating income and financial performance, as discussed earlier.

Capital Assets

At June 30, 2005 the Hospital had \$5,699,545 invested in capital assets net of accumulated depreciation. In 2005, the Hospital expended \$157,307 to purchase new equipment; also, during 2004 and 2003 the Hospital expended approximately \$2,495,000 for the construction of a ten unit Assisted Living complex, new laundry and cafeteria buildings and a four-unit Independent Living complex.

**WAYNE COUNTY HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2005 AND 2004**

Long Term Debt

Table 6 shows a summary of the Hospital's long term debt outstanding.

Table 6: Long Term Debt

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Hospital Revenue Bonds	\$ 480,362	\$ 717,947	\$ -
Note Payable	188,889	200,000	-
Capital Lease Payable	<u>282,602</u>	<u>285,480</u>	<u>288,000</u>
 Total Long Term Debt	 <u>\$ 951,853</u>	 <u>\$ 1,203,427</u>	 <u>\$ 288,000</u>

The most significant number in Table 6 is the 2004 Hospital Revenue Bonds payable. The Board of Trustees adopted a resolution authorizing the issuance of up to \$1,200,000 of Bonds Payable in December 2003 to finance the renovation of the laundry, kitchen and cafeteria and the building of the independent living and assisted living facilities. The bonds are payable through November of 2016 at annual rates starting at 4.0%. The interest rate on the bonds will adjust on April 1 in the years 2007, 2010, 2013 and 2016 to a rate per annum determined by the Lender to be equal to the Prime Rate as published on the Interest Rate Adjustment Date in the Wall Street Journal in its Money Rate table as "Prime Rate" and if more than one Prime Rate is published on such date, then the highest of such published Prime Rates. Interest only on the unpaid outstanding principal balance of the bonds, calculated from the date of each advance, was payable on the first day of each month beginning April 1, 2004 and including July 1, 2004. The repayment terms of the bonds were finalized in August 2004 for total Bonds Payable of \$717,947. Early payoff is an option for these bonds with no penalty.

Economic Factors

The Economic trends in our community, as well as our population figures, have declined slightly over the past years, although there has been little change in the economic profile of the community.

Agriculture plays an important role in our community's economics. The past year's yields will not have a huge impact on the economic situation of the community.

There appears, at this time, to be no sign of any new industries making a move to our community nor are there any indications of any businesses closing. With that, the economic outlook for our community should remain steady.

We are experiencing an increase in uninsured patients as well as an increase in the patient portion of patient accounts which has an economic impact on our community due to the high percentage of near of below poverty level households. We implemented a Charity Program in 2003 and have seen an increased number of applications each year. We have also entered into agreements with two agencies that assist in identifying patients that may be eligible for assistance as well as assist them in completing the paperwork for assistance. The second agency assists in payment arrangements for self pay portions of patient accounts.

**WAYNE COUNTY HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2005 AND 2004**

Contacting the Hospital

The financial report is designed to provide our citizens, customers, and creditors with a general overview of Wayne County Hospital's finances and to demonstrate the hospital's accountability for the money it receives. If you have any questions about this report or need additional information, please contact Hospital Administration at Wayne County Hospital, 417 South East Street, Corydon, Iowa 50060.

**WAYNE COUNTY HOSPITAL
BALANCE SHEETS
JUNE 30, 2005 AND 2004**

	2005	2004
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 2,017,796	\$ 2,058,710
Patient Receivables, Less Allowance for Uncollectible Accounts of \$311,777 (2005) and \$366,435 (2004)	1,323,312	1,313,735
Other Receivables	56,692	62,891
Current Maturities of Note Receivable	16,693	15,855
Estimated Third-Party Payor Settlements	63,463	-
Inventories	194,985	175,073
Prepaid Expenses	108,266	78,725
Total Current Assets	3,781,207	3,704,989
NONCURRENT CASH AND INVESTMENTS		
Internally Designated for Capital Improvement	1,780,894	1,790,583
Restricted Payment Reserve-Capital Lease	4,968	3,312
Restricted by Contributors	26,288	23,769
Restricted Under Debt Agreement	7,608	7,608
Total Noncurrent Cash and Investments	1,819,758	1,825,272
CAPITAL ASSETS, NET	5,699,545	6,321,757
OTHER ASSETS		
Note Receivable	9,859	26,552
Investment, Physician-Hospital Organization	17,000	17,000
Succeeding Year Property Tax Receivable	742,184	747,962
Total Other Assets	769,043	791,514
Total Assets	\$ 12,069,553	\$ 12,643,532

See accompanying Notes to Financial Statements.

LIABILITIES AND FUND BALANCES	<u>2005</u>	<u>2004</u>
CURRENT LIABILITIES		
Accounts Payable	\$ 360,215	\$ 210,401
Construction Accounts Payable	-	113,484
Accrued Employee Compensation	389,276	329,650
Accrued Interest Payable	2,282	2,282
Payroll Taxes and Withholdings	102,396	116,147
Estimated Third-Party Payor Settlements	-	96,973
Current Portion of Long-Term Debt	<u>59,299</u>	<u>36,299</u>
Total Current Liabilities	913,468	905,236
DEFERRED REVENUE FOR SUCCEEDING YEAR		
PROPERTY TAX RECEIVABLE	742,187	747,963
LONG-TERM DEBT, Net of Current Portion	<u>892,554</u>	<u>1,167,128</u>
COMMITMENTS AND CONTINGENCIES		
Total Liabilities	2,548,209	2,820,327
NET ASSETS		
Invested in Capital Assets Net of Related Debt	4,747,692	5,118,330
Restricted for Capital Expenditures	26,288	23,769
Restricted Under Debt Agreements	7,608	7,608
Restricted for Payment Reserve - Capital Lease	4,968	3,312
Unrestricted	<u>4,734,788</u>	<u>4,670,186</u>
Total Net Assets	9,521,344	9,823,205
 Total Liabilities and Net Assets	 <u>\$ 12,069,553</u>	 <u>\$ 12,643,532</u>

**WAYNE COUNTY HOSPITAL
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2005 AND 2004**

	2005	2004
OPERATING REVENUES		
Net Patient Service Revenue (net of provision for bad debt of \$435,106 in 2005 and \$228,743 in 2004)	\$ 8,029,110	\$ 7,643,652
Assisted Living and Multi Unit Housing Revenue	256,754	17,126
Other Revenues, Including County Taxes 2005 \$744,791; 2004 \$678,496	996,137	936,360
Total Revenue	9,282,001	8,597,138
EXPENSES		
Nursing Service	2,008,259	1,976,955
Other Professional Service	3,419,736	3,453,032
General Service	1,211,355	1,029,584
Fiscal and Administrative Service and Unassigned Expenses	2,324,916	2,199,048
Depreciation	661,387	546,361
Interest	33,220	23,267
Total Expenses	9,658,873	9,228,247
OPERATING LOSS	(376,872)	(631,109)
NON-OPERATING GAINS (LOSSES)		
Interest Income	60,499	51,620
Loss on Sale of Fixed Assets	(4,650)	(570)
Unrestricted Contributions	10,144	478,353
Net Nonoperating Gains	65,993	529,403
DEFICIT OF REVENUES OVER EXPENSES BEFORE CAPITAL GRANTS AND CONTRIBUTIONS	(310,879)	(101,706)
Capital Grants and Contributions	9,018	1,200
Decrease in Net Assets	(301,861)	(100,506)
Net Assets Beginning of Year	9,823,205	9,923,711
Net Assets End of Year	\$ 9,521,344	\$ 9,823,205

See accompanying Notes to Financial Statements.

**WAYNE COUNTY HOSPITAL
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2005 AND 2004**

	<u>2005</u>	<u>2004</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Patients and Third Party Payors	\$ 8,115,851	\$ 7,622,654
Cash Paid to Employees	(5,003,008)	(4,941,106)
Cash Paid to Suppliers	(3,815,022)	(3,615,301)
Interest Paid on Long-Term Debt	(33,220)	(20,985)
Other Receipts and Payments, Net	251,346	257,864
Net Cash Used by Operating Activities	<u>(484,053)</u>	<u>(696,874)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
County Taxes Received	744,791	678,496
Unrestricted Contributions Received	19,162	479,553
Net Cash Provided by Non-Capital Financing Activities	<u>763,953</u>	<u>1,158,049</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of Capital Assets	(158,305)	(2,186,701)
	998	-
Proceeds from Issuance of Long Term Debt	-	917,947
Payments on Long Term Debt	(251,574)	(2,520)
Net Cash Used by Capital and Related Financial Activities	<u>(408,881)</u>	<u>(1,271,274)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease in Noncurrent Cash and Investments	5,514	513,640
Interest Received	60,499	51,620
Decrease (Increase) in Other Receivables	6,199	(28,491)
Decrease (Increase) in Note Receivable	15,855	7,546
Net Cash Provided by Investing Activities	<u>88,067</u>	<u>544,315</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(40,914)	(265,784)
Cash and Cash Equivalents - Beginning of Year	<u>2,058,710</u>	<u>2,324,494</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 2,017,796</u>	<u>\$ 2,058,710</u>

See accompanying Notes to Financial Statements.

**WAYNE COUNTY HOSPITAL
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED JUNE 30, 2005 AND 2004**

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating Loss	\$ (376,872)	\$ (631,109)
Adjustments to Reconcile Operating Income to Net Cash Used by Operations		
County Taxes	(744,791)	(678,496)
Provision for Depreciation	661,387	546,361
Decrease (Increase) in:		
Patient Receivables	(9,577)	26,718
Estimated Third-Party Payor Settlements	(63,463)	-
Inventories	(19,912)	7,797
Prepaid Expenses	(29,541)	5,797
Increase (Decrease) in:		
Accounts Payable	149,814	22,056
Accrued Employee Compensation	59,626	20,904
Payroll Taxes and Withholdings	(13,751)	45,658
Estimated Third-Party Payor Settlements	(96,973)	(64,842)
Accrued Interest	-	2,282
Net Cash Used by Operating Activities	\$ (484,053)	\$ (696,874)

See accompanying Notes to Financial Statements.

**WAYNE COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004**

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES

Wayne County Hospital (the Hospital) is a county public hospital, organized under Chapter 347, Code of Iowa, not subject to taxes on income or property, and receives tax support from Wayne County. Taxes are included in other revenue when received and distributed by the County Treasurer.

Reporting Entity

For financial reporting purposes, Wayne County Hospital has included all funds, organizations, account groups, agencies, boards, commissions, and authorities that are not legally separate. The Hospital has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Hospital are such that exclusion would cause the Hospital's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Hospital to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Hospital. These criteria also include organizations that are fiscally dependent on the Hospital. The Hospital has no component units, which meet the Governmental Accounting Standards Board criteria.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accompanying basic financial statements have been prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles. Revenues are recognized when earned and expense are recorded when the liability is incurred.

In reporting its financial activity, the Hospital applies all applicable GASB pronouncements for proprietary funds as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

**WAYNE COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004**

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets and Liabilities

The following accounting policies are followed in preparing the balance sheets:

Cash and Cash Equivalents

Cash and cash equivalents include savings accounts and investments in highly liquid debt instruments with an original maturity of three months or less.

Patient Receivables

The Hospital provides an allowance for uncollectible accounts based on the allowance method using management's judgment. Patients and residents are not required to provide collateral for services rendered. Payment for services is required within 30 days of receipt of invoice or claim submitted. Accounts past due more than 90 days are turned over to collection agents. In addition, an allowance is estimated for other accounts based on historical experience of the organization. At June 30, 2005 and 2004, the allowance for uncollectible accounts was \$311,777 and \$366,435, respectively.

Inventories

Inventories are stated at cost, based on the first-in, first-out method.

Capital Assets

Capital assets are reported at historical cost. Contributed capital assets are reported at their estimated fair value at the time of their donation. The Hospital computes depreciation on buildings and equipment using the straight-line method. Lives for the building and land improvements are fifteen to forty years, while the equipment lives range from three to twenty years. Capital expenditures of \$5,000 or greater are capitalized and depreciated over the life of the assets. Capital expenditures less than \$5,000 are expensed when incurred.

Investments

Investments are valued at purchase cost, or fair market value at date of acquisition if donated. Investments consist of savings accounts, certificates of deposits with original deposits greater than three months, and accrued interest receivable.

Property Tax Receivable

Property tax receivable is recognized on the levy or lien date, which is the date that the tax asking is certified by the County Board of Supervisors. The succeeding year property tax receivable represents taxes certified by the Board of Supervisors to be collected in the next fiscal year for the purposes set out in the budget for the next year. By statute, the Board of Supervisors is required to certify the budget in March of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred and will not be recognized as revenue until the year for which it is levied.

**WAYNE COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004**

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Noncurrent Cash and Investments

Noncurrent cash and investments include assets which have been internally designated and which have been restricted contributors. Restricted funds are used to differentiate funds which are limited by the donor to specific uses from funds on which the donor places no restriction or which arise as a result of the operation of the Hospital for its stated purposes. Resources set aside for the Board-designated purposes are not considered to be restricted. Resources restricted by donors for specific operating purposes are reported in nonoperating income to the extent expended within the period.

Deferred Revenue

Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of succeeding year property tax receivable.

Net Assets

Net assets of the Hospital are classified into three components. *Net assets invested in capital assets net of related debt* consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Restricted expendable net assets* are noncapital net assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Hospital. *Unrestricted net assets* are remaining net assets that do not meet the definition of invested capital assets net of related debt or restricted.

Contributions

From time to time the Hospital receives contributions from individuals and private organizations. Revenues from contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met. Contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

Restricted Resources

When the Hospital has both restricted and unrestricted resources available to finance a particular program, it is the Hospital's policy to use restricted resources before unrestricted resources.

County Tax Revenue

Taxes levied to finance the current year are included in other operating revenue.

**WAYNE COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004**

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Operating Revenues and Expenses

The Hospital's statement of revenues, expenses and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services – the Hospital's principal activity, as well as county tax revenue. Nonexchange revenues, including interest income, unrestricted grants and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, including interest expense.

Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined.

Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. Charity care provided during the years ending June 30, 2005 and 2004 was \$10,931 and \$17,561, respectively.

NOTE 2 DESIGNATED NET ASSETS

Of the \$4,734,788 and \$4,670,186 of unrestricted net assets at June 30, 2005 and 2004, respectively, \$1,780,894 and \$1,790,583 have been designated by the Hospital's Board of Trustees for capital acquisitions. These are reflected in the Hospital noncurrent cash and investments. Designated funds remain under the control of the Board of Trustees, which may at its discretion later use the funds for other purposes.

NOTE 3 NET PATIENT SERVICE REVENUE

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows.

Medicare

Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Inpatient nonacute services and certain outpatient services, related to Medicare beneficiaries were paid based upon a cost reimbursement methodology. The Hospital was reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits based thereof by the Medicare fiscal intermediary.

**WAYNE COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004**

NOTE 3 NET PATIENT SERVICE REVENUE (CONTINUED)

Medicare (Continued)

Through July 31, 2004, the Hospital's classification of patients under the Medicare program and the appropriateness of their admission were subject to an independent review by a peer review organization under contract with the Hospital. Outpatient services were reimbursed under the Ambulatory Payment Classification (APC) method, which reimbursed the Hospital a predetermined amount for most outpatient services. The APC payments were not based on the provider's annual cost report and during the transition period there was a hold harmless provision which prevented the Hospital from experiencing large reductions in payment through January 1, 2006. Effective August 1, 2004, the Hospital received certification as a Critical Access Hospital (CAH) and receives reimbursement for services provided to Medicare beneficiaries based on the cost of providing those services. Interim payment rates are established for inpatient and outpatient services, with settlement for over or under payments determined based on year-end cost reports. The Hospital's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the Hospital. The Hospital's Medicare cost reports have been finalized by the Medicare intermediary through June 30, 2003.

Medicaid

Through July 31, 2004, inpatient services rendered to Medicaid program beneficiaries were paid at prospectively determined rates per discharge. Outpatient services were paid at prospectively determined rates per outpatient ambulatory patient group. Effective August 1, 2004, the Hospital has received certification as a Critical Access Hospital (CAH) and receives reimbursement for services provided by Medicaid beneficiaries based on the cost of providing those services. Interim rates are established for inpatient and outpatient services, with settlement for over or under payments determined based on year-end cost reports.

Other

The Hospital has also entered into payment agreements with Blue Cross and other commercial insurance carriers. The basis for reimbursement under these agreements includes discounts from established charges and prospectively determined rates.

Laws and regulations governing Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

A summary of patient service revenues and contractual adjustments is as follows:

	2005	2004
Total Patient Service Revenue	\$ 12,975,339	\$ 12,396,742
Contractual Adjustments		
Medicare	3,303,377	3,154,790
Medicaid	742,811	831,199
Provision for Bad Debts	435,106	228,743
Other	464,935	538,358
Total Contractual Adjustments	4,946,229	4,753,090
Net Patient Service Revenue	\$ 8,029,110	\$ 7,643,652

**WAYNE COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004**

NOTE 4 PATIENT RECEIVABLES

Patient receivables reported as current assets by the Hospital at June 30, 2005 and 2004 consisted of the following:

	2005	2004
Receivable from Patients and Their Insurance Carriers	\$ 956,272	\$ 1,116,508
Receivable from Medicare	536,874	401,362
Receivable from Medicaid	141,943	162,300
Total Patient Receivables	1,635,089	1,680,170
Less Allowance for Doubtful Accounts	(311,777)	(366,435)
Patient Receivables, Net	\$ 1,323,312	\$ 1,313,735

NOTE 5 DEPOSITS AND INVESTMENTS

The Hospital's deposits in banks at June 30, 2005 are entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Hospital is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The Health System's investment policy does not limit investments on interest rate risk and credit risk. The Health System complies with State of Iowa statutes in regards to interest rate and credit risk.

At June 30, 2005 and 2004 the Hospital's deposits at fair market value are as follows:

	2005	2004
Deposits	\$ 3,837,554	\$ 3,883,982

**WAYNE COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004**

NOTE 5 DEPOSITS AND INVESTMENTS (CONTINUED)

The carrying amount of deposits shown above are included in the Hospital's balance as follows:

	<u>2005</u>	<u>2004</u>
Cash and Cash Equivalents	\$ 2,017,796	\$ 2,058,710
Noncurrent Cash and Investments		
Internally Designated for Capital Improvement	1,780,894	1,790,583
Restricted by Contributors	26,288	23,769
Restricted Under Debt Agreement	7,608	7,608
Payment Reserve-Capital Lease	4,968	3,312
	<u>\$ 3,837,554</u>	<u>\$ 3,883,982</u>

NOTE 6 CAPITAL ASSETS

Summaries of capital assets for the years ended June 30, 2005 and 2004 are as follows:

Capital Assets	July 1, 2004	Additions	(Retirements)	June 30, 2005
Land	\$ 86,883	\$ -	\$ -	\$ 86,883
Land Improvements	355,806	17,904	(2,980)	370,730
Buildings	5,223,313	-	(7,946)	5,215,367
Fixed Equipment	2,963,738	-	(21,970)	2,941,768
Movable Equipment	2,988,260	15,417	(219,721)	2,783,956
Construction in Progress	-	11,500	-	11,500
Totals	11,618,000	44,821	(252,617)	11,410,204
Accumulated Depreciation				
Land Improvements	168,767	22,366	(2,980)	188,153
Buildings	1,801,072	257,501	(7,549)	2,051,024
Fixed Equipment	1,085,220	135,642	(17,081)	1,203,781
Movable Equipment	2,241,184	245,878	(219,361)	2,267,701
Totals	5,296,243	<u>\$ 661,387</u>	<u>\$ (246,971)</u>	5,710,659
	<u>\$ 6,321,757</u>			<u>\$ 5,699,545</u>

**WAYNE COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004**

NOTE 6 CAPITAL ASSETS (CONTINUED)

Capital Assets	July 1, 2003	Additions	(Retirements)	June 30, 2004
Land	\$ 86,883	\$ -	\$ -	\$ 86,883
Land Improvements	273,394	82,412	-	355,806
Buildings	3,568,924	1,654,389	-	5,223,313
Fixed Equipment	2,073,700	890,038	-	2,963,738
Movable Equipment	2,712,101	297,954	(21,795)	2,988,260
Construction in Progress	808,971	1,686,382	(2,495,353)	-
Totals	9,523,973	4,611,175	(2,517,148)	11,618,000
Accumulated Depreciation				
Land Improvements	152,619	16,148	-	168,767
Buildings	1,632,070	169,002	-	1,801,072
Fixed Equipment	986,188	99,032	-	1,085,220
Movable Equipment	1,998,522	262,179	(19,517)	2,241,184
Totals	4,769,399	\$ 546,361	\$ (19,517)	5,296,243
	<u>\$ 4,754,574</u>			<u>\$ 6,321,757</u>

NOTE 7 NOTE RECEIVABLE

The Hospital has entered into an income guarantee agreement with a local physician, wherein monthly payments could be made to the physician over a twenty-four month income guarantee period, which commenced April 2000. The gross monthly income guarantee payments are reduced by the physician's monthly gross salary, which is defined as the cash available to be paid to the physician as the result of his practice in the community. The total maximum income guarantee amount is \$250,000. The aggregate amount of the income guarantee payments are considered a loan and are subject to repayment, including interest, at the applicable federal rate in effect during the month in which the agreement was executed.

At the end of the guarantee period, which was May 2003, a promissory note was executed, and monthly principal and interest payments will be required over a twenty-four month period that began during 2004. If requested by the Hospital, the physician will grant to the Hospital a security interest in equipment and accounts receivable. The total outstanding balance of this promissory note was \$26,552 and \$42,407 for the years ended June 30, 2005 and 2004, respectively.

**WAYNE COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004**

NOTE 8 LONG-TERM DEBT

A schedule of changes in long-term debt for 2005 and 2004 is as follows:

	Balance July 1, 2004	Additions	(Payments)	Balance June 30, 2005	Amounts Due Within One Year
Clarke Electric Note	\$ 200,000	\$ -	\$ (11,111)	\$ 188,889	\$ 22,222
Hospital Revenue Bonds	717,947	-	(237,585)	480,362	34,059
Obligation Under Capital Lease	285,480	-	(2,878)	282,602	3,018
Total Long-Term Debt	<u>\$ 1,203,427</u>	<u>\$ -</u>	<u>\$ (251,574)</u>	<u>\$ 951,853</u>	<u>\$ 59,299</u>
	Balance July 1, 2003	Additions	(Payments)	Balance June 30, 2004	Amounts Due Within One Year
Clarke Electric Note	\$ -	\$ 200,000	\$ -	\$ 200,000	\$ 11,111
Hospital Revenue Bonds	-	717,947	-	717,947	22,310
Obligation Under Capital Lease	288,000	-	(2,520)	285,480	2,878
Total Long-Term Debt	<u>\$ 288,000</u>	<u>\$ 917,947</u>	<u>\$ (2,520)</u>	<u>\$ 1,203,427</u>	<u>\$ 36,299</u>

Capital Lease Obligation

During the year ended June 30, 2002, the Hospital entered into an agreement with the City of Corydon, Iowa (the City) for the operation of a child day care center. The operations of the day care center will be conducted in a building constructed by the City and leased to the Hospital under an agreement dated June 1, 2002. Under the agreement, the Hospital is to make lease payments to the City through July 1, 2041. During the term of the agreement, the City retains title to the day care facility, but upon completion of the agreement title to the facilities transfers to the Hospital.

The Hospital made monthly interest only payments under the lease on March 1, 2003, through August 1, 2003. Effective August 1, 2003, the Hospital began making monthly principal and interest payments totaling \$1,368. The effective interest rate on the capital lease is 4.75%, and is secured by the gross revenues of the Hospital.

**WAYNE COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004**

NOTE 8 LONG-TERM DEBT (CONTINUED)

The Hospital has entered into a zero interest note payable with a rural electric cooperative in the amount of \$200,000 for a project to renovate the Hospital's dietary and laundry facilities. Monthly payments are required in the amount of \$1,852 through January 2013. The note is collateralized by the gross revenues of the Hospital.

The Hospital issued Revenue Bonds in the amount of \$717,947, including accrued interest, for a project to renovate the Hospital's dietary and laundry facilities. The Hospital made an additional payment of \$200,000 on the bonds during fiscal year 2005. Remaining monthly payments of \$4,388 including principal and interest are due through November 2016. The interest rate is a variable rate and is adjustable every three years. The rate is adjusted to the current prime rate as published in the Wall Street Journal. At June 30, 2005, the interest rate was 4%. The notes are collateralized by the gross revenues of the Hospital.

Below is a schedule of assets acquired under capital lease and corresponding accumulated amortization along with a schedule of future debt service.

Assets Acquired Under Capital Lease

	2005	2004
Child Day Care Center	\$ 288,000	\$ 288,000
Less Accumulated Amortization	(21,600)	(14,400)
Total	\$ 266,400	\$ 273,600

Debt Service Requirements

Years Ending June 30:	Long-Term Debt		Capital Lease	
	Principal	Interest	Principal	Interest
2006	\$ 56,281	\$ 18,595	\$ 3,018	\$ 13,398
2007	57,669	17,207	3,165	13,251
2008	59,113	15,763	3,319	13,097
2009	60,616	14,260	3,480	12,936
2010	62,180	12,696	3,650	12,766
2011-2015	303,354	37,691	21,094	60,986
2016-2020	70,038	2,054	26,754	55,325
2021-2025	-	-	33,936	48,144
2026-2030	-	-	43,044	39,037
2031-2035	-	-	54,595	27,485
2036-2040	-	-	69,247	12,833
2041-2045	-	-	17,300	484
	\$ 669,251	\$ 118,266	\$ 282,602	\$ 309,742

**WAYNE COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004**

NOTE 9 DEFINED BENEFIT PENSION PLAN

The Hospital contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits, which are established by States statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the Hospital is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The Hospital's contributions to IPERS for the years ended June 30, 2005, 2004, and 2003 were \$228,701, \$226,817, and \$213,714, respectively, equal to the required contributions for each year.

NOTE 10 EMPLOYEE BENEFITS

The Hospital has adopted a self-insured health insurance program for all employees. Claims for health care services for employees and their families are accrued when reported to the plan administrator. The plan contains a stop-loss provision, which limits the amount of claims paid by the plan to \$30,000 per person, in addition to an aggregate stop-loss provision of \$449,183 for the plan as a whole. Amounts recorded as expenses under this self-insurance program include claims, administration fees and stop-loss insurance premiums.

NOTE 11 BUILDING LEASED TO OTHERS

On April 1, 2004, the Hospital entered into an agreement to lease a medical office building located adjacent to the Hospital. The lease calls for annual lease payments of \$61,176 beginning on April 1, 2004 and ending April 2006. The minimum future rentals on the lease as of June 30, 2004 are as follows:

<u>Year Ending June 30,</u> 2006	\$ 45,882
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NOTE 12 RELATED ORGANIZATION

Management Services

The Hospital has a contractual arrangement with Mercy Medical Center – Des Moines, under which Mercy Medical Center – Des Moines (Mercy) provides an administrator, management consultation, and other services. The arrangement does not alter the authority or responsibility of the Board of Trustees of Wayne County Hospital. Expenses for the administrative and management services received were \$306,583 and \$242,607 for the years ended June 30, 2005 and 2004, respectively. The Hospital had accounts payable to Mercy of \$63,098 and \$54,132 at June 30, 2005 and 2004, respectively.

**WAYNE COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004**

NOTE 13 COMMITMENT AND CONTINGENCIES

Malpractice Claims

The Hospital is insured by a claims-made policy for protection against liability claims resulting from professional services provided or which should have been provided. Coverage limits are \$1,000,000 per claim and \$3,000,000 in the aggregate.

Presently, no claims alleging malpractice have been asserted against the Hospital. However, incidents occurring through June 30, 2005 may result in the assertion of claims. Other claims may be asserted arising from services provided to patients in the past. Management is unable to estimate the ultimate cost, if any, of the resolution of such potential claims and, accordingly, no accrual has been made for them; however, management believes that these claims, if asserted, would be settled within the limits of insurance coverage.

Hospital Risk Management

The Hospital is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. The Hospital assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

Healthcare Legislation and Regulation

The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement for patient services and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violation of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

Management believes that the Hospital is in substantial compliance with fraud and abuse as well as other applicable government laws and regulations. While no regulatory inquiries have been made, compliance with such laws and regulations is subject to government review and interpretation, as well as regulatory actions unknown or unasserted at this time.

REQUIRED SUPPLEMENTARY INFORMATION

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**WAYNE COUNTY HOSPITAL
BUDGETARY COMPARISON SCHEDULE OF REVENUES,
EXPENSES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2005**

	Actual Accrual Basis	Accrual Adjustments	Cash Basis	Original Budget	Final to Actual Cash Basis Variance
Amount to be Raised by Taxation	\$ 744,791	\$ -	\$ 744,791	\$ 717,779	\$ 27,012
Other Revenues/Receipts	8,612,221	(165,363)	8,446,858	8,683,897	(237,039)
	9,357,012	(165,363)	9,191,649	9,401,676	(210,027)
Expenses/Expenditures	9,658,873	(426,310)	9,232,563	9,807,666	575,103
Net	(301,861)	260,947	(40,914)	(405,990)	365,076
Balance, Beginning	9,823,205	(7,764,495)	2,058,710	4,589,022	(2,530,312)
Balance, Ending	<u>\$ 9,521,344</u>	<u>\$ (7,503,548)</u>	<u>\$ 2,017,796</u>	<u>\$ 4,183,032</u>	<u>\$ (2,165,236)</u>

NOTE 1 RELATED ORGANIZATION

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary prospective differences.

The Board of Trustees annually prepares and adopts a budget designating the amount necessary for the improvement and maintenance of the Hospital on the cash basis following required public notice and hearing in accordance with Chapters 24 and 347 of the Code of Iowa. The Board of Trustees certifies the approved budget to the appropriate county auditors. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Formal and legal budgetary control is based on total expenditures.

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OTHER SUPPLEMENTARY INFORMATION

**WAYNE COUNTY HOSPITAL
SCHEDULES OF NET PATIENT SERVICE REVENUE
YEARS ENDED JUNE 30, 2005 AND 2004**

	TOTAL	
	2005	2004
DAILY PATIENT SERVICES		
Medical and Surgical	\$ 1,077,852	\$ 884,310
Obstetric	78,934	42,840
Special Care	33,588	20,500
Swing Bed	609,649	620,527
Nursery	51,330	33,516
Total	<u>1,851,353</u>	<u>1,601,693</u>
OTHER NURSING SERVICES		
Operating and Recovery Rooms	816,080	973,895
Delivery and Labor Room	47,520	37,694
Medical and Surgical Supplies	281,394	335,786
Emergency Service	705,536	695,595
Ambulance	473,590	408,280
Kidney Dialysis	615,217	580,178
	<u>2,939,337</u>	<u>3,031,428</u>
OTHER PROFESSIONAL SERVICES		
Laboratory	1,252,775	1,135,487
Electrocardiology and Monitors	162,575	158,927
Radiology	1,815,507	1,815,715
Pharmacy	1,854,872	1,771,600
Anesthesiology	406,549	471,782
Respiratory Therapy	343,718	358,576
Physical Therapy	385,400	375,335
Speech Therapy	24,726	13,543
Occupational Therapy	32,853	41,393
Medical Clinics	1,766,671	1,513,665
Daycare	149,934	125,159
Total	<u>8,195,580</u>	<u>7,781,182</u>
Charity Care	<u>(10,931)</u>	<u>(17,561)</u>
Total Gross Patient Service Revenues	12,975,339	12,396,742
Provision for Contractual and Other Adjustments	<u>(4,946,229)</u>	<u>(4,753,090)</u>
Net Patient Service Revenue	<u><u>\$ 8,029,110</u></u>	<u><u>\$ 7,643,652</u></u>

INPATIENT		OUTPATIENT	
2005	2004	2005	2004
\$ 1,077,852	\$ 884,310	\$ -	\$ -
78,934	42,840	-	-
33,588	20,500	-	-
609,649	620,527	-	-
51,330	33,516	-	-
<u>1,851,353</u>	<u>1,601,693</u>	<u>-</u>	<u>-</u>
180,254	180,447	635,826	793,448
45,116	35,239	2,404	2,455
80,996	84,434	200,398	251,352
42,410	119,872	663,126	575,723
-	-	473,590	408,280
-	-	615,217	580,178
<u>348,776</u>	<u>419,992</u>	<u>2,590,561</u>	<u>2,611,436</u>
317,222	331,783	935,553	803,704
42,648	41,859	119,927	117,068
222,577	227,628	1,592,930	1,588,087
600,846	651,150	1,254,026	1,120,450
55,680	48,693	350,869	423,089
271,603	290,232	72,115	68,344
144,078	164,027	241,322	211,308
12,206	10,968	12,520	2,575
19,522	29,430	13,331	11,963
-	-	1,766,671	1,513,665
-	-	149,934	125,159
<u>1,686,382</u>	<u>1,795,770</u>	<u>6,509,198</u>	<u>5,985,412</u>
(10,931)	(17,561)	-	-
<u>\$ 3,875,580</u>	<u>\$ 3,799,894</u>	<u>\$ 9,099,759</u>	<u>\$ 8,596,848</u>

**WAYNE COUNTY HOSPITAL
SCHEDULES OF ADJUSTMENTS TO PATIENT SERVICE
REVENUE AND OTHER REVENUES
YEARS ENDED JUNE 30, 2005 AND 2004**

	<u>2005</u>	<u>2004</u>
ADJUSTMENTS TO PATIENT SERVICE REVENUES		
Medicare	\$ 3,303,377	\$ 3,154,790
Medicaid	742,811	831,199
Provision for Bad Debts	435,106	228,743
Other	464,935	538,358
	<hr/>	<hr/>
Total Adjustments	<u>\$ 4,946,229</u>	<u>\$ 4,753,090</u>
 OTHER REVENUES		
County Taxes	\$ 744,791	\$ 678,496
Office Rent	120,808	117,302
Miscellaneous	31,569	65,498
Cafeteria	60,147	45,624
Meals on Wheels	11,327	12,548
Emergency Telephone Services	20,810	16,892
Restricted contributions	6,185	-
Community Programs	500	-
	<hr/>	<hr/>
Totals	<u>\$ 996,137</u>	<u>\$ 936,360</u>

**WAYNE COUNTY HOSPITAL
SCHEDULES OF NURSING SERVICE EXPENSES
YEARS ENDED JUNE 30, 2005 AND 2004**

	<u>2005</u>	<u>2004</u>
MEDICAL AND SURGICAL, NURSERY, DELIVERY AND LABOR ROOM, AND CARDIAC REHABILITATION		
Salaries	\$ 837,338	\$ 909,375
Professional Fees	87,135	51,743
Supplies and Expenses	101,053	103,192
	<u>1,025,526</u>	<u>1,064,310</u>
OPERATING AND RECOVERY ROOM		
Salaries	138,176	149,198
Supplies and Expenses	61,564	41,142
	<u>199,740</u>	<u>190,340</u>
EMERGENCY AND OUTPATIENT SERVICE		
Salaries	372,719	250,941
Supplies and Expenses	1,429	994
	<u>374,148</u>	<u>251,935</u>
AMBULANCE AND BIOMEDICAL		
Salaries	187,632	252,423
Supplies and Expenses	32,709	25,513
	<u>220,341</u>	<u>277,936</u>
KIDNEY DIALYSIS		
Salaries	105,022	111,878
Professional Fees	5,290	6,948
Supplies and Expenses	61,143	65,989
	<u>171,455</u>	<u>184,815</u>
SCHOOL NURSE		
Salaries	17,049	7,619
	<u>17,049</u>	<u>7,619</u>
 Totals	 <u>\$ 2,008,259</u>	 <u>\$ 1,976,955</u>

**WAYNE COUNTY HOSPITAL
SCHEDULES OF OTHER PROFESSIONAL SERVICE EXPENSES
YEARS ENDED JUNE 30, 2005 AND 2004**

OTHER PROFESSIONAL SERVICE EXPENSES

	2005	2004
LABORATORY		
Salaries	\$ 164,471	\$ 167,633
Professional Fees	84,775	74,057
Supplies and Expenses	199,318	133,150
	448,564	374,840
 ELECTROCARDIOLOGY AND MONITORS		
Salaries	990	-
Professional Fees	21,771	21,502
Supplies and Expenses	1,840	2,563
	24,601	24,065
 RADIOLOGY		
Salaries	136,287	134,839
Professional Fees	540,394	575,261
Supplies and Expenses	31,533	35,837
	708,214	745,937
 PHARMACY		
Professional Fees	140,294	134,973
Drugs	376,802	309,041
Supplies and Expenses	86,510	109,631
	603,606	553,645
 ANESTHESIOLOGY		
Professional Fees	241,715	281,285
Supplies and Expenses	11,343	18,726
	253,058	300,011
 RESPIRATORY THERAPY		
Salaries	53,506	58,651
Supplies and Expenses	31,517	22,869
	85,023	81,520
 PHYSICAL THERAPY		
Salaries	124,836	127,211
Professional Fees	833	366
Supplies and Expenses	6,817	8,227
	132,486	135,804
 SPEECH THERAPY		
Professional Fees	30,448	22,275
Supplies and Expenses	7,038	5,276
	37,486	27,551

**WAYNE COUNTY HOSPITAL
SCHEDULES OF OTHER PROFESSIONAL SERVICE EXPENSES
YEARS ENDED JUNE 30, 2005 AND 2004**

	<u>2005</u>	<u>2004</u>
OCCUPATIONAL THERAPY		
Professional Fees	\$ 19,322	\$ 23,127
MEDICAL CLINICS		
Salaries	689,915	759,583
Professional Fees	9,442	10,155
Supplies and Expenses	149,892	139,704
	<u>849,249</u>	<u>909,442</u>
MEDICAL RECORDS		
Salaries	80,767	111,225
Supplies and Expenses	25,251	31,940
	<u>106,018</u>	<u>143,165</u>
DAYCARE		
Salaries	140,005	123,505
Supplies and Expenses	12,104	10,420
	<u>152,109</u>	<u>133,925</u>
 Totals	 <u>\$ 3,419,736</u>	 <u>\$ 3,453,032</u>

**WAYNE COUNTY HOSPITAL
SCHEDULES OF GENERAL SERVICE EXPENSES
YEARS ENDED JUNE 30, 2005 AND 2004**

GENERAL SERVICE EXPENSES

	2005	2004
DIETARY		
Salaries	\$ 173,432	\$ 156,388
Food	162,980	123,922
Supplies and Expenses	25,560	57,211
	361,972	337,521
 PLANT OPERATION AND MAINTENANCE		
Salaries	114,140	120,720
Utilities	133,823	134,652
Supplies and Expenses	217,047	170,172
	465,010	425,544
 HOUSEKEEPING		
Salaries	149,393	151,846
Supplies and Expenses	25,075	27,391
	174,468	179,237
 LAUNDRY AND LINEN		
Salaries	37,214	34,754
Supplies and Expenses	7,747	7,584
	44,961	42,338
 MULTI USE HOUSING		
Supplies and Expenses	8,614	4,718
	8,614	4,718
 ASSISTED LIVING		
Salaries	134,217	20,800
Supplies and Expenses	22,113	19,426
	156,330	40,226
 Totals	 \$ 1,211,355	 \$ 1,029,584

**WAYNE COUNTY HOSPITAL
SCHEDULES OF FISCAL AND ADMINISTRATIVE EXPENSES
YEARS ENDED JUNE 30, 2005 AND 2004**

FISCAL, ADMINISTRATIVE AND UNASSIGNED EXPENSES

	<u>2005</u>	<u>2004</u>
FISCAL AND ADMINISTRATIVE SERVICES		
Administration		
Salaries	\$ 335,595	\$ 326,939
Management Fees	306,583	242,607
Professional Fees	43,069	65,780
Telephone	71,300	86,014
Repairs and Maintenance	38,924	39,822
Supplies and Expense	69,593	73,315
Dues	70,286	51,229
Travel	11,569	13,071
Physician Recruitment	15,489	49
Advertising	46,758	50,717
Other Administrative Expense	100,015	89,676
Total Fiscal and Administrative Expenses	<u>1,109,181</u>	<u>1,039,219</u>
UNASSIGNED EXPENSES		
Employee Benefits		
FICA	273,449	269,093
IPERS	228,701	226,817
Group Health, Life Insurance, and Unemployment	554,029	536,230
Insurance	159,556	127,689
Total unassigned expenses	<u>1,215,735</u>	<u>1,159,829</u>
Totals	<u>\$ 2,324,916</u>	<u>\$ 2,199,048</u>

**WAYNE COUNTY HOSPITAL
SCHEDULES OF ANALYSIS OF ACCOUNTS RECEIVABLE FROM PATIENTS
AND ALLOWANCE FOR DOUBTFUL ACCOUNTS
YEARS ENDED JUNE 30, 2005 AND 2004**

Analysis of Aging

Age of Accounts (by Date of Discharge)	2005		2004	
	Amount	Percent	Amount	Percent
1-30 days (Includes Patients in Hospital June 30)	\$ 913,672	41.9 %	\$ 803,701	33.7 %
31-60 Days	327,733	15.0	425,050	17.8
61-90 Days	142,589	6.5	156,362	6.6
91 Days and Over	442,417	20.3	723,826	30.4
Clinic Receivables	353,488	16.3	272,620	11.5
Total Accounts Receivable	<u>2,179,899</u>	<u>100.0 %</u>	<u>2,381,559</u>	<u>100.0 %</u>
ALLOWANCES				
Contractual -				
Medicare	(325,330)		(389,982)	
Medicaid	(86,864)		(131,243)	
Other	(132,616)		(98,635)	
Unapplied PIP Payments	-		(81,529)	
Doubtful Accounts	(311,777)		(366,435)	
Net Accounts Receivable	<u>\$ 1,323,312</u>		<u>\$ 1,313,735</u>	
Net Patient Service Revenue per Calendar Day (excluding bad debt)	<u>\$ 23,190</u>		<u>\$ 21,568</u>	
Days of Net Patient Service Revenue in Accounts Receivable at Year End	<u>57</u>		<u>61</u>	

Analysis of Allowance for Doubtful Accounts

	2005		2004	
	Amount	Percent of Net Patient Service Revenue	Amount	Percent of Net Patient Service Revenue
Beginning Balance	\$ 366,435		\$ 297,511	
Add:				
Provision for Doubtful Accounts	435,106	5.0 %	228,743	2.9 %
Recoveries Previously Written Off	<u>(295,037)</u>	<u>(3.4)</u>	<u>(82,560)</u>	<u>(1.0)</u>
	506,504		443,694	
Deduct:				
Accounts Written Off	<u>(194,727)</u>	<u>(2.2)</u>	<u>(77,259)</u>	<u>(1.0)</u>
Ending Balance	<u>\$ 311,777</u>		<u>\$ 366,435</u>	

**WAYNE COUNTY HOSPITAL
SCHEDULES OF INVENTORY AND PREPAID EXPENSES
JUNE 30, 2005 AND 2004**

INVENTORY

	<u>2005</u>	<u>2004</u>
Central Supply	\$ 20,738	\$ 24,875
Clinics	7,735	10,008
Pharmacy	60,639	53,832
Nursing	9,046	8,914
Physical Therapy	2,705	2,705
Operating Room	45,272	37,233
Laboratory	17,900	13,031
Dietary	15,897	11,434
Radiology	7,126	5,873
Housekeeping	942	1,035
Kidney Dialysis	3,326	1,773
Laundry and Linen	3,659	4,360
	<u>\$ 194,985</u>	<u>\$ 175,073</u>

PREPAID EXPENSES

Insurance	\$ 38,587	\$ 37,886
Other	69,679	40,839
	<u>\$ 108,266</u>	<u>\$ 78,725</u>

**WAYNE COUNTY HOSPITAL
COMPARATIVE STATISTICS (UNAUDITED)
YEARS ENDED JUNE 30, 2005 AND 2004
UNAUDITED**

	2005	2004
PATIENT DAYS		
Acute	1,929	1,696
Nursery	118	87
Swing Bed		
Skilled Nursing Care	1,353	1,562
Intermediate Care	608	594
Totals	4,008	3,939
ADMISSIONS		
Acute and Special Care	628	537
DISCHARGES		
Acute and Special Care	629	539
AVERAGE LENGTH OF STAY		
Acute and Special Care	3.1	3.1
BEDS		
	25	28
OCCUPANCY PERCENTAGE		
Including Swing Bed	43.0%	37.7%

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

Board of Trustees
Wayne County Hospital
Corydon, Iowa

We have audited the financial statements of Wayne County Hospital as of and for the year ended June 30, 2005, which collectively comprise the Hospital's basic financial statements, and have issued our report thereon dated September 30, 2005. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Wayne County Hospital's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Wayne County Hospital's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings.

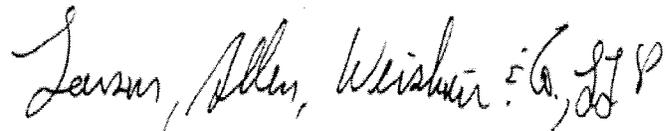
A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. We noted no matters involving internal control over financial reporting and its operations that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Wayne County Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance and other matters that are required to be reported under *Government Auditing Standards*.

We also noted certain additional matters that we reported to management of Wayne County Hospital in a separate letter dated September 30, 2005.

This report is intended solely for the information and use of the Board of Trustees, management, employees, and citizens of Wayne County and other parties to whom the Hospital may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.



LARSON, ALLEN, WEISHAIR & CO., LLP

Austin, Minnesota
September 30, 2005

**WAYNE COUNTY HOSPITAL
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2005**

PART I – FINDINGS RELATED TO FINANCIAL STATEMENTS

Reportable Conditions

05-I-1 CASH RECEIPTS PROCEDURES

One individual at a satellite clinic receives all payments, posts receipts and prepares and delivers cash deposits. This process also often results in a time lag of several days between when receipts are posted and when deposits are delivered to the bank.

Recommendation:

We recommend segregating the incompatible duties described above so that one individual does not perform all of these functions.

Client Response:

We will review the current procedures in order to identify opportunities to segregate the incompatible functions in this process.

Conclusion:

Response accepted.

**WAYNE COUNTY HOSPITAL
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2005**

PART II – FINDINGS RELATED TO COMPLIANCE

05-II-1 OFFICIAL DEPOSITORIES

A resolution naming official depositories has been adopted by the Board of Trustees. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2005.

05-II-2 CERTIFIED BUDGET

Hospital cash basis expenditures during the year ended June 30, 2005 did not exceed budgeted amounts.

05-II-3 QUESTIONABLE EXPENDITURES

We noted no expenditures that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

05-II-4 TRAVEL EXPENSES

No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.

05-II-5 BUSINESS TRANSACTIONS

No business transactions were found between the Hospital and Hospital officials and/or employees.

05-II-6 BOARD MINUTES

Board minutes were examined and appeared to give a condensed accurate account of business transacted by the Board.

05-II-7 DEPOSITS AND INVESTMENTS

We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Hospital's investment policy.

05-II-8 PUBLICATION OF BILLS ALLOWED AND SALARIES

Chapter 374.13(14) of the Code of Iowa states "There shall be published quarterly in each of the official newspapers of the county as selected by the board of supervisors pursuant to section 349.1 the schedule of bills allowed and there shall be published annually in such newspaper the schedule of salaries paid by job classification and category..." The Hospital did publish a schedule of bills allowed and a schedule of salaries paid as required by the Code.